



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**HURRICANE-RELATED CONTRACTING,
DEPARTMENT OF EDUCATION,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 98-I-384
MARCH 1998**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MEMORANDUM

APR 13 1998

TO: The Secretary

FROM: Robert J. Williams *Robert J. Williams*
Acting Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Hurricane-Related Contracting, Department of Education, Government of the Virgin Islands" (No. 98-I-384)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether (1) construction contracts were awarded in accordance with applicable laws and regulations, (2) controls existed to ensure that construction work was performed in accordance with building codes and other requirements, and (3) payments to contractors were reasonable, allowable, and allocable in accordance with contract provisions.

We found that the procurement and project management procedures used by the Department of Education and the Government's project management consultants excluded authorized Government agencies from key aspects of the post-hurricane construction contracting. Specifically, we found that (1) the Department of Public Works, on behalf of the Department of Education, allowed construction contractors to perform work on public schools without any formal contracts; (2) the Hurricane Recovery Managers used contracting procedures that excluded the Department of Property and Procurement and did not provide the level of competition required by the Virgin Islands Code; and (3) the Government and the Hurricane Recovery Managers did not maintain an adequate level of construction management oversight. As a result, there was little assurance that (1) the Government received the most favorable prices, terms, and conditions with regard to construction and other contractual services acquired at a total cost of more than \$21.5 million; (2) contractors who received payments totaling more than \$21 million performed construction work in accordance with the terms and conditions of their contracts; and (3) the safety of the occupants of public schools was adequately protected because the construction work did not always meet building code requirements. We made seven recommendations to improve the Government's procurement and project management practices and procedures.

Based on the response from the Governor of the Virgin Islands, we considered three recommendations resolved but not implemented; requested additional information for three recommendations; and requested a response for one recommendation, which was revised based on the Governor's response.

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 31 1998

Honorable Roy L. Schneider
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on Hurricane-Related Contracting, Department of Education,
Government of the Virgin Islands (98-I-384)

Dear Governor Schneider:

This report presents the results of our review of contracts awarded by or for the Virgin Islands Department of Education after Hurricane Marilyn in September 1995. The objective of the audit was to determine whether (1) construction contracts were awarded in accordance with applicable laws and regulations; (2) controls existed to ensure that construction work was performed in accordance with building codes and other requirements; and (3) payments to contractors were reasonable, allowable, and allocable in accordance with contract provisions. The scope of the audit included construction and professional services contracts that were awarded during fiscal years 1996 and 1997.

Our review disclosed that the procurement and project management procedures used by the Department of Education and the Government's project management consultants excluded authorized Governmental agencies from key aspects of the post-hurricane construction contracting. Specifically, we found that:

- Immediately after the hurricane, the Department of Public Works, on behalf of the Department of Education, allowed construction contractors to perform work on public schools without any formal contracts and issued "after-the-fact" purchase orders for additional services acquired on behalf of the Department of Education. Additionally, the Hurricane Recovery Managers used contracting procedures that excluded the Department of Property and Procurement, which has overall responsibility for Government contracting, and did not provide the level of competition required by the Virgin Islands Code, even though emergency conditions existed after the hurricane. As a result, there was little assurance that the Government received the most favorable prices, terms, and conditions with regard to construction and other contractual services acquired at a total cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000.

- The Government and the Hurricane Recovery Managers did not maintain an adequate level of construction management oversight. For example, construction contractors' periodic requests for payment were not always approved by authorized personnel; inspection

and progress reports were not always sufficiently detailed to support contractors' payment requests; and the Government did not adequately monitor the activities of its project management consultants, including the Hurricane Recovery Managers. In addition, building permits were not obtained for work to be performed on the public schools, and such work was not always performed in accordance with building code requirements. As a result, there was little assurance that contractors who received payments totaling more than \$21 million performed construction work in accordance with the terms and conditions of their contracts and that the safety of the occupants of public schools was adequately protected because the construction work did not always meet building code requirements. In addition, a contractor was overpaid at least \$5,418.

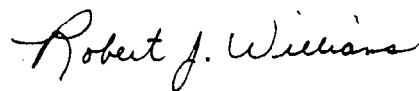
On December 16, 1997, we transmitted a draft of this report to you, requesting your comments by January 30, 1998. On February 18, 1998, we received your response (Appendix 2) dated January 29, 1998, which generally concurred with six of the report's seven recommendations. Based on the response, we consider Recommendations A.1, A.2, and A.3 resolved but not implemented. Accordingly, these recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Also, additional information is requested for Recommendations B.1, B.2, and B.3, and a response is requested for Recommendation B.4, which was revised based on additional information in the response. (The status of all the recommendations is in Appendix 3.)

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by May 15, 1998. The response should be addressed to our Caribbean Regional Office, Federal Building - Room 207, St. Thomas, Virgin Islands 00802. The response should provide the information requested in Appendix 3.

We appreciate the assistance of the Commissioners and staffs of the Department of Education and the Department of Property and Procurement during the conduct of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Robert J. Williams".

Robert J. Williams
Acting Inspector General

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INTRODUCTION

BACKGROUND

On September 15, 1995, Hurricane Marilyn struck the United States Virgin Islands, causing extensive damage to public and private facilities. As a result, the President of the United States issued a major disaster declaration, which allowed the Federal Emergency Management Agency (FEMA) to provide disaster assistance funds in accordance with the Stafford Disaster Relief and Emergency Assistance Act, as amended (Public Law 100-707). FEMA provided the Government of the Virgin Islands with \$22.7 million in disaster assistance funds for school repairs, consisting of \$15 million for the acquisition of modular classrooms to be used at certain public schools while permanent repairs were being made, \$2 million for repairs to public schools, and \$5.7 million for an overall project management contract with the Hurricane Recovery Managers. In addition, the Department of Education received a total of \$27.7 million from insurance proceeds and \$6 million from local bond proceeds for the repair and reconstruction of public schools. During fiscal years 1996 and 1997, the Government awarded 41 construction contracts and 44 professional services contracts, totaling about \$51.4 million, that related to the repair and reconstruction of the schools.

In September 1995, immediately after Hurricane Marilyn struck, the Government conducted a survey of the public school facilities to determine the extent of the damage. An official from the Department of Public Works was assigned as a Special Project Coordinator, with the responsibility to hire contractors to perform emergency debris removal and repair work at the schools.

In December 1995, the Government hired a joint venture of two off-island architectural/engineering firms (commonly referred to as the Hurricane Recovery Managers) to act as its overall project manager for all hurricane-related construction, including repairs to public schools. According to their contract, the Hurricane Recovery Managers were responsible for preparing solicitation packages for architectural/engineering and construction services, soliciting and evaluating proposals from contractors, supervising construction work, maintaining financial oversight control of FEMA and other funds available for construction work, preparing construction progress reports, and coordinating with vendors for the purchase and delivery of materials. The contract was in the amount of \$5.7 million plus a maximum of \$748,000 in additional fees. However, in June 1996,¹ the Government and the Hurricane Recovery Managers mutually agreed to terminate the contract, primarily because of disagreements concerning the quality and timeliness of the work performed by contractors at some public schools.

In August 1996, the Government awarded a \$1.9 million contract, effective retroactively to late June 1996, to a local architectural/engineering firm to act as the Government's project manager for Department of Education construction projects. According to the contract, the project manager's responsibilities included providing detailed architectural drawings for repair

¹The formal termination agreement was not executed until June 1997.

work, preparing construction cost estimates, monitoring construction work through frequent on-site visits, ensuring that construction work was in accordance with the building codes, preparing and submitting to the Government any necessary construction contract change orders, and reviewing and recommending approval of contractor requests for progress payments. The contract remained in effect, with three extensions, through July 31, 1997.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether (1) construction contracts were awarded in accordance with applicable laws and regulations; (2) controls existed to ensure that construction work was performed in accordance with building codes and other requirements; and (3) payments to contractors were reasonable, allowable, and allocable in accordance with contract provisions. The scope of the audit included contracts and/or purchase orders for hurricane-related construction and professional services awarded by or for the Department of Education during fiscal years 1996 and 1997. We selected for review a judgmental sample of 18 (out of 44) professional services contracts and 30 (out of 41) construction contracts, totaling over \$49.8 million, that were awarded on behalf of the Department of Education. The audit was performed at the Departments of Property and Procurement, Education, and Public Works. We also made site visits to 30 public schools to observe the construction work.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our review, we evaluated the Government's system of internal controls related to the award and oversight of construction contracts and the accountability of funds for the hurricane-related contracts. The internal control weaknesses we identified in these areas are addressed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

The Office of Inspector General has issued two reports during the past 5 years regarding hurricane-related construction for public schools in the Virgin Islands. The survey report "Procurement Practices for Hurricane-Related Repairs to Public Schools, Government of the Virgin Islands" (No. 96-E-1113), dated August 1996, concluded that the operating officials at the Departments of Education and Public Works did not always comply with the procurement requirements and that there was no assurance that the Government received the most favorable prices, terms, and conditions with regard to emergency debris removal and repair services acquired at a total cost of more than \$1.5 million for public schools. We recommended that the Governor of the Virgin Islands direct all Executive Branch agencies to (1) submit hurricane-related work requirements to the Department of Property and Procurement and (2) ensure that the procurement process includes the use of competitive proposals to the maximum extent practicable, the issuance of formal contracts before work

was started, and the maintenance of complete files documenting the procurement actions taken with regard to each contract.

The audit report "Construction Contracts, Capital Improvement Program, Government of the Virgin Islands" (No. 94-I-1194), dated September 1994, included a review of contracts awarded to repair damage to schools caused by Hurricane Hugo in September 1989. With regard to procurement practices, the report concluded that (1) the Department of Property and Procurement did not adequately document actions taken to procure construction services and did not ensure that competitive procedures were used to the maximum extent practicable and (2) the Government and the Program Management Consultant did not provide adequate oversight of construction projects. As a result, 7 contracts, totaling \$4.5 million, were not awarded on the basis of competitive procedures; 4 contracts, totaling \$25 million, were not awarded to the lowest proposers; and 14 contracts, totaling \$18 million, did not have sufficient information in the contract files to determine whether competitive procurement procedures had been used. Additionally, the report questioned construction costs of about \$8 million charged against a grant from the U.S. Department of Education and \$2.7 million paid to the Project Management Consultant. With regard to contracts for repairs to public schools, we recommended that the Governor of the Virgin Islands ensure that (1) the Department of Property and Procurement complies with the competitive procurement requirements of the Virgin Islands Code and of Virgin Islands Rules and Regulations, establishes formal policies and procedures regarding the contents of construction contract files, and enforces existing policies and procedures with regard to the issuance of change orders and supplemental contracts; (2) inspectors from the Department of Public Works or other inspectors authorized by the Department conduct regular inspections at each construction site and file appropriate inspection reports; and (3) the Department of Education provides the U.S. Department of Education with supporting documentation for the \$8 million in questioned construction costs and the \$2.7 million in questioned payments to the Project Management Consultant so that the funding agency can determine the allowability of those costs.

Our current review disclosed procurement and contract oversight deficiencies similar to those identified in the two prior reports.

FINDINGS AND RECOMMENDATIONS

A. CONTRACT AWARD

The Government did not maintain sufficient oversight of the procurement process to ensure that contracts related to repairs to public schools damaged by Hurricane Marilyn were awarded in an effective manner. Specifically, the Department of Public Works, on behalf of the Department of Education, allowed construction contractors on St. Thomas to perform work without competition or formal contracts and issued "after-the-fact" purchase orders for services for the Department of Education, and the Hurricane Recovery Managers used procurement procedures that did not provide the required level of competition. In addition, procurement files did not adequately document whether competitive procedures were used. The Virgin Islands Code and the Virgin Islands Rules and Regulations contain the requirements for competitive procurement. However, the Government did not provide adequate oversight of the procurement process in that the Department of Property and Procurement, which has overall responsibility for Government procurement, was generally excluded from the process and the procurement procedures did not allow for the active involvement of third parties, such as the Departments of Education and Public Works and the Hurricane Recovery Managers. As a result, the Government had little assurance that it received the most favorable prices, terms, and conditions with regard to construction and other contractual services acquired at a total cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000.

Procurement Requirements

Title 31, Section 239, of the Virgin Islands Code states that purchases may be made without the use of formal advertisement and competitive bidding when, among other exceptions, the "Governor declares in the public interest that a State of Emergency exists and specifies in such Proclamation those purchases and/or services which may be obtained without competitive bidding." The emergency proclamation that the Governor issued after Hurricane Marilyn allowed Governmental agencies to procure goods and services without formal advertising. However, the proclamation required that responsible agencies "negotiate on a competitive basis" and "make every reasonable effort to obtain the most favorable prices, terms, and conditions for the Government."

Title 31, Section 234, of the Virgin Islands Code, which was not waived by the Governor's emergency proclamation, states that "no purchase shall be made by any department or agency of the government or by any employee of the government for any agency of the government except by written order approved by the Commissioner of Property and Procurement." The penalties for violation of this requirement include personal liability for the purchase price, a fine of not more than \$200, and/or dismissal from employment.

Procurement Methods Used

Although Title 31, Section 234, of the Virgin Islands Code designated the Commissioner of Property and Procurement as the procuring official for the Government of the Virgin Islands, the Department of Education and the Hurricane Recovery Managers executed their own procurement for emergency debris removal and repair work at the public school facilities. Of the 30 construction contracts we selected for review, we found that 20 contracts, totaling \$18.7 million, were awarded noncompetitively and without the involvement of the Department of Property and Procurement.

Special Project Coordinator. After Hurricane Marilyn struck the Virgin Islands on September 15, 1995, the Department of Education used a Special Project Coordinator from the Department of Public Works to supervise and coordinate the repairs to the public schools on St. Thomas and St. John. This occurred without coordination with the Department of Property and Procurement, and, as a result, the Department of Education allowed the Special Project Coordinator to hire construction contractors noncompetitively. The Department of Education also did not execute formal contracts with the contractors before work commenced, as required by the Virgin Islands Code, to specify the detailed scope of work, method of payment, procedures for inspection of work, resolution of disputes, and other standard contract provisions to protect the interests of both the Government and the contractors.

After the hurricane, the Coordinator, through a public radio announcement, requested that contractors which had performed work on the schools during the summer restoration program provide emergency debris removal and repair services at the public schools damaged by Hurricane Marilyn. The Coordinator requested that the contractors submit a statement of general scope of work before they were assigned to perform work on the same structures they had worked on during the summer. However, we found 3 contracts, out of 30 awarded with the assistance of the Coordinator, that were prepared and executed after the contractors had started the repairs. For example:

- On December 7, 1995, a construction contract for \$1.2 million was awarded to a contractor for repairs to a St. Thomas elementary school. A contractor invoice for \$347,670 showed that construction work had begun on October 1, 1995. The Department of Property and Procurement was not involved in awarding this contract, which was executed after work had started.

- On December 7, 1995, a construction contract for \$850,000 was awarded for repairs to another St. Thomas elementary school. A contractor invoice for \$140,546 showed that construction work had begun before October 15, 1995. Additionally, there was no abstract of bids or a bid evaluation report in the contract files to indicate whether more than one contractor was given the opportunity to submit a proposal for this contract. An October 27, 1995, transmittal memorandum from the Department of Education's Director of Business Affairs to the then-Commissioner of Education stated that a contract was not in place at the time that work began, inspection reports had not been prepared to verify that the job was satisfactorily completed, and approvals for payment had not been obtained from all

of the appropriate Government officials. Nevertheless, a miscellaneous disbursement voucher for \$87,869 was processed, and the contractor was paid.

In an October 23, 1995, letter to the Governor, the Commissioner of Property and Procurement stated:

Contrary to the provisions of Title 31 V.I.C. [Virgin Islands Code] Section 239, the procurement regulations for open market purchases, the Department of Property and Procurement was kept completely out of the process [by the Department of Education]. As a result, we cannot protect the government's interest relative to costs, terms, completion dates, and assessments on those contracts.

In an internal memorandum dated October 30, 1996, an employee of the Department of Property and Procurement reported to the Commissioner that there were significant variances in the estimated costs for emergency construction work performed by contractors on 10 Department of Education projects. While the contractors submitted invoices totaling \$6.8 million for emergency repairs performed at Department of Education facilities, architects/engineers representing the Government estimated that the work performed by the contractors was valued at \$2.3 million, for an overall variance of \$4.5 million. As of October 1997, these variances had not been resolved.

We also found that, although Title 31, Section 234, of the Virgin Islands Code requires that purchases be made by written orders, the Department of Public Works procured services for the Department of Education without purchase orders. Specifically, we found that nine purchase orders, totaling \$164,000, were prepared after the work was completed. The Department of Public Works sent contractors' invoices to the Department of Education, which prepared and submitted purchase orders to the Department of Property and Procurement for approval. We believe that the submission of the purchase orders to the Department of Property and Procurement was an "after-the-fact" process which was contrary to the requirements of Title 31, Section 234, of the Virgin Islands Code.

Hurricane Recovery Managers. In December 1995, the Government of the Virgin Islands hired the Hurricane Recovery Managers, at a cost of \$6.5 million, to serve as overall project managers for all hurricane-related construction projects. As a result, the Department of Property and Procurement was excluded, except for approving contractors recommended by the firm, because the firm acted independently in soliciting, evaluating, selecting, and negotiating with contractors for architectural, engineering, and construction services for structural repairs to be performed at public schools damaged by Hurricane Marilyn.

Under procedures established by the Hurricane Recovery Managers, contractors were solicited through the local media, direct mailings, and personal contacts after a Department of Education official prioritized the schools requiring repair work. The responding contractors filled out qualification statements, which were submitted to the Hurricane Recovery Managers, who screened the contractors based on data in these statements and prepared a list of qualified contractors. A selection board comprising representatives of the

Hurricane Recovery Managers interviewed the contractors, asking questions regarding their ability to perform the work required. Based on the information in the qualification statements and the responses to the selection board's questions, the Hurricane Recovery Managers recommended contractors to the Commissioner of Property and Procurement for final approval before the Hurricane Recovery Managers negotiated contracts with the selected contractors. The Hurricane Recovery Managers used construction master agreements as the basic contracts and assigned and controlled specific projects through task orders to the contractors. The task orders contained a description of the services required, drawings and specifications as applicable, the time frame for performance, the agreed-upon price, and the terms of payment.

However, the proposal, selection, and awarding procedures established by the Hurricane Recovery Managers differed from the Government's standard procurement process in that they did not (1) include the Department of Property and Procurement as an integral part of the process, (2) require the solicitation of competitive proposals for each contract to be awarded, or (3) include Governmental representatives on the contractor selection committees. Additionally, the Government did not have a system to monitor the Hurricane Recovery Managers' activities and to maintain adequate control over the construction contracts awarded by the Hurricane Recovery Managers. As a result, there was no opportunity for competition among the eligible contractors to ensure that the Government received the most favorable prices for repair work at the public schools, and there was little assurance that the Hurricane Recovery Managers and construction contractors performed work in accordance with their contracts.

Project Manager. On August 29, 1996, the Government, after mutually agreeing with the Hurricane Recovery Managers to terminate their contract, awarded a \$1.9 million professional services contract noncompetitively to a former employee of the Department of Education to oversee completion of repair and reconstruction work at the public schools. The contract was effective retroactively to June 24, 1996. The contractor told us that the then-Commissioner of Education offered him the contract. As such, this contract was awarded without compliance with the competitive procurement requirements of Title 31, Chapter 23, of the Virgin Islands Code.

We believe that there was little assurance that the Government of the Virgin Islands received the most favorable prices, terms, and conditions for construction and other contractual services acquired at a cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000 because the Special Project Coordinator completely bypassed the Department of Property and Procurement in the process, did not solicit competitive proposals, and did not issue written contracts or purchase orders; the Hurricane Recovery Managers used procurement procedures that differed from the Government's standard procurement process; and the project manager was not selected competitively.

Contract Files

The official contract files maintained by the Department of Property and Procurement were not complete and did not contain sufficient documentation of procurement actions taken for the construction and professional services contracts reviewed. Based on our review of the 48 contract files selected, we determined that all of the files were missing at least one key document. For example, 23 files did not contain invitations for bids or requests for proposals, 29 files did not contain copies of the original plans and specifications, 30 files did not contain bonding information, 21 files did not contain copies of the contractors' business licenses, 37 files did not contain abstracts of bids, 32 files did not contain evaluation committee reports, 17 files did not contain notices to proceed, and 29 files did not contain building permits. Additionally, the files for 18 contracts, totaling \$12.6 million, of the 30 construction contracts we reviewed did not contain sufficient documentation for us to determine whether competitive procurement procedures had been used. Because the Department of Education and the Hurricane Recovery Managers procured services in accordance with their own procedures, there was little assurance that documents were forwarded to the Department of Property and Procurement for the official contract files. Without complete contract files, the Government may not be able to refute claims of contractors who believe that they should have been awarded the contracts or resolve disputes by contractors over the terms, conditions, or prices of the contracts.

At the November 25, 1997, exit meeting on the preliminary draft of this report, the Commissioner of Education stated that immediately after the hurricane, there was "confusion" among Government agencies as to the accepted procurement practices to be followed under the Governor's emergency proclamation but that later procurement actions were made using procedures which were more in compliance with the legal requirements. The Commissioner also stated that his department had developed contingency plans for procuring emergency debris removal and school repair services in the event that another hurricane strikes the Virgin Islands.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Ensure that the Department of Property and Procurement carries out its procurement responsibilities in accordance with Title 31, Chapter 23, of the Virgin Islands Code and the Virgin Islands Rules and Regulations, including the use of competitive procedures to the maximum extent practicable and the issuance of formal contracts before work begins.
2. Enforce Title 31, Section 234, of the Virgin Islands Code, which requires that purchases be made by written orders approved by the Department of Property and Procurement.
3. Ensure that the Department of Property and Procurement maintains contract files which adequately document the procurement process. Specifically, the contract files should

contain, as appropriate, the invitation for bids or request for proposals; all bids or proposals received, including contractor qualification statements, evidence of bonding or other surety, copies of business licenses, and other documents that are required as part of a complete bid package; bid abstract sheets summarizing all bids or proposals received, including bid amounts; bid evaluation sheets of individual committee members and the final bid evaluation committee report; executed contracts and any subsequent amendments, supplements, or change orders; notices of award and notices to proceed; correspondence related to the contracts; progress payment requests and other documents related to payments to contractors; and documents related to actions taken with regard to any deficiencies noted, including the assessment of liquidated damages.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The January 29, 1998, response (Appendix 2) to the draft report from the Governor of the Virgin Islands, which we received on February 18, 1998, concurred with the three recommendations and stated that the Commissioner of Property and Procurement had been "directed . . . to meet all the requirements" of the recommendations and report to the Governor on the status of corrective actions within 30 days. Based on the response, we consider the recommendations resolved but not implemented (see Appendix 3).

General Comments on Finding

The Governor's response also included comments on the finding. The Government's comments and our replies are as follows:

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree with the statement that there were significant variances, totaling \$4.5 million, between amounts billed by construction contractors and estimates of the value of the work prepared by architects/engineers representing the Government. The response stated that "in some instances the architect/engineer's unit prices were below normal Virgin Islands prices, for construction, during normal circumstances" and that this caused some of the unit prices to be "even more unreal" because the work was done "during a time of great emergency when material [was] being sold at a premium due to its scarcity and labor costs were high due to the scarcity of manpower."

Office of Inspector General Reply. The intent of the report was to identify the existence of variances without making a judgment as to whether the contractors' invoices or the architects'/engineers' estimates were more accurate. However, the variances had not been resolved at the time of completion of our audit in October 1997. Further, we believe that the response statement that "in other cases such as Joseph Gomez and Evelyn Marcelli Elementary Schools, there was justification for questioning some of the prices submitted by contractors and the quantities of work which they claimed to have completed" would indicate that there were concerns about the prices and quantities of work billed.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree that the Department of Property and Procurement was excluded from most aspects of the procurement process because the Hurricane Recovery Managers acted independently. The response stated that the Hurricane Recovery Managers "worked in concert" with the Governor's Authorized Representative and the Department of Property and Procurement.

Office of Inspector General Reply. Our statement was based on detailed descriptions of the procurement procedures used by the Hurricane Recovery Managers as provided to us by officials of the Departments of Property and Procurement and Education. Although the Hurricane Recovery Managers did interact with the Governor's Authorized Representative and the Department of Property and Procurement, that interaction did not afford that department the opportunity to participate in the day-to-day procurement process to the extent that its legal authority and responsibility as the Government's official procurement agency would require. To a large extent, procurement-related decisions were made by the Hurricane Recovery Managers that were later presented to the Department of Property and Procurement for approval.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree that the Government did not have a system to monitor the Hurricane Recovery Managers' activities and to maintain control over the construction contracts awarded by the Hurricane Recovery Managers. The response stated that the Department "worked closely with the Hurricane Recovery Managers; attended weekly staff meetings; received reports; manpower and construction schedules; and maintained oversight of their activities."

Office of Inspector General Reply. We believe that our statement is accurate because the construction contract files that were made available to us during the audit did not contain evidence of close interaction and oversight activity by the Department of Education. Despite our inquiries, Department officials did not provide such documentation. In addition, the response acknowledges that the files were only being assembled in January 1998.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree that there was no opportunity for competition among the list of contractors established by the Hurricane Recovery Managers to ensure that the Government received the most favorable prices for repair work and there was little assurance that the Hurricane Recovery Managers and construction contractors performed in accordance with their contracts. The response also stated that "the unit prices which the Hurricane Recovery Managers mandated for repair work at the public schools were acceptable and in the best interest of the Government" and that "construction contractors performed in accordance with their contracts."

Office of Inspector General Reply. Without the existence of price proposals from various contractors, it is impossible to definitively state whether or not a particular contract price was "the most favorable" or "in the best interest of the Government." As to whether contractors performed in accordance with their contracts, we believe that the examples in our

report of less-than-satisfactory contractor performance demonstrate that work was not in accordance with contracts. For example, Finding B cites construction deficiencies that we found at four schools (Ivanna Eudora Kean High School, Joseph Sibilly Elementary School, Arthur Richards Junior High School, and Alexander Henderson Elementary School) during on-site visits in May and June 1997. The response acknowledges that those deficiencies existed and states that corrective actions had been taken subsequent to completion of our audit. In the case of the Joseph Sibilly Elementary School, the response states that "the original contractor . . . was dismissed and a new contractor is presently completing the necessary repairs." Further, the response (pages 22 through 25) states that work performed under the Phase I repairs, which was not in conformance with building code requirements, was corrected by subsequent work under Phase II. We believe that these situations support our statements on the contractors not performing in accordance with their contracts.

Governor of the Virgin Islands Response. The response stated that the Department of Education disagreed with our conclusions regarding the procurement methods it used. Specifically, the response stated that the Government "received the most favorable prices, terms, and conditions for construction and other contractual services acquired at a cost of more than \$21.5 million and for 'after-the-fact' purchase orders totaling \$164,000"; that although the Special Project Coordinator "completely bypassed" the Department of Property and Procurement, did not solicit competitive proposals, and did not issue written contracts or purchase orders, the Special Project Coordinator acted in good faith on behalf of the Government"; that although the Hurricane Recovery Managers used procurement procedures that differed from the Government standard procurement process, the Hurricane Recovery Managers "operated in concert with the [Government Authorized Representative] and the Department of Property and Procurement"; and that although "the Commissioner of Education agrees that the Project Manager was not selected competitively . . . time was of the essence . . . and it was in the best interest of the Government to utilize this Project Manager" because "he possessed a thorough understanding of all the facets of contracting; payment requests; inspections and in general project oversight."

Office of Inspector General Reply. Although the response states that the Government's actions were taken because of the emergency conditions that occurred after Hurricane Marilyn, we have found and reported on similar procurement-related deficiencies in other prior audit reports, including the September 1994 report (see Prior Audit Coverage), which reported similar problems after Hurricane Hugo in 1989 and made recommendations for improving the Government's emergency-related procurement procedures. If, in response to the 1994 report, the Government had established contingency plans and procedures for procuring emergency repair services in the event of a future hurricane or other disaster, we believe that many of the problems disclosed in our current report could have been avoided. With regard to the statement in the response that "the Special Project Coordinator acted in good faith on behalf of the Government," we do not believe that "good faith" is an acceptable replacement for the objective price comparison that is achieved through the use of competitive procurement practices.

General Comments on Audit Report

The response stated that the Department of Education did not concur with our statement (Objective and Scope section) regarding the award of construction contracts. The response stated that "all contracts were awarded by the Department of Property and Procurement and the Hurricane Recover Managers."

Office of Inspector General Reply. We believe that our statement is correct because the Department of Education, immediately after Hurricane Marilyn, issued eight purchase orders, totaling about \$500,000, for hurricane-related repairs and debris removal at public schools. Although purchase orders are not formal construction contracts, they bind the Government to a contractual obligation with an outside firm for repair work to schools. The eight purchase orders were issued without the involvement or the approval of the Department of Property and Procurement. Thus, we have revised the wording of the Objective and Scope section to state that "contracts and/or purchase orders for hurricane-related construction and professional services were awarded by or for the Department of Education." (Emphasis added.)

B. CONTRACT OVERSIGHT

The Government did not maintain sufficient oversight of construction projects to ensure that repairs to public schools damaged by Hurricane Marilyn were performed in accordance with existing requirements. Specifically, contractors' requests for periodic payments were not always approved, inspection and progress reports were not always sufficiently detailed to support contractors' payment requests, and building permits were not always obtained. The Virgin Islands Code requires the Department of Public Works to supervise the construction and repair of Government buildings and specifies the conditions for obtaining building permits. However, the Government did not provide the required oversight of construction projects in that it allowed project management contractors rather than the Department of Public Works to supervise the construction and repair of public schools and did not have procedures for monitoring the activities of the project management contractors. As a result, there was little assurance that construction and professional services contractors who received over \$21 million for work on public schools performed the work in accordance with their contracts or that the work performed on the schools was in compliance with building code requirements, thus creating the potential for safety deficiencies in the public schools. We also found that a contractor was overpaid by at least \$5,418.

Documentation of Oversight Activities

Title 3, Section 138, of the Virgin Islands Code requires the Department of Public Works to supervise the construction and repair of all government buildings. However, during the period of October to December 1995, which was the period of time prior to the contract with the Hurricane Recovery Managers, the Government did not maintain documentation showing whether the construction projects were inspected by the Department of Public Works. Additionally, during the period of December 1995 to June 1996, the Government had the Hurricane Recovery Managers carry out the Government's contract oversight responsibilities. Specifically, the Hurricane Recovery Managers were required to (1) review architectural designs and plans prepared by contracted architects/engineers, (2) monitor design and construction activities, and (3) provide the Government with construction progress reports. However, we found no progress reports in the contract files to support progress payment requests submitted by the contractors for 27 of the 30 construction contracts reviewed.

Additionally, in a February 20, 1996, memorandum to the Commissioner of Property and Procurement, the Hurricane Recovery Managers indicated that their contractor selection process was focused on identifying qualified architectural/engineering firms for four schools. However, during our review of the Hurricane Recovery Managers' files located at the Department of Education, we found no architectural sketches or plans for the work performed at the schools. Further, because there was no documentation in the files showing how the Hurricane Recovery Managers monitored and reviewed the work of contractors, there was little assurance that the construction firms fulfilled their contractual obligations. There was also no documentation in the files to show that the Government monitored the activities of the Hurricane Recovery Managers to ensure that they carried out their contractual obligations as the Government's overall project management consultant.

The project manager hired in June 1996 to replace the Hurricane Recovery Managers conducted joint inspections with an inspector from the Department of Public Works of construction work performed at the public schools. But the project manager's invoices did not provide sufficient details to support the quantity or quality of work he performed. For example, the project manager's first invoice, dated August 19, 1996, billed the Government \$222,528 for services rendered during the period of June 23 to August 17, 1996. However, the supporting documentation attached to the invoice indicated that only \$214,179 was owed for 3,355 hours of staff time and \$2,931 was owed for mileage on the firm's vehicles. Therefore, the project manager was overpaid \$5,418. Additionally, the invoice did not indicate which schools were visited or the type of services provided at each school.

During May and June 1997, we made on-site visits to 30 public schools (12 on St. Thomas and 18 on St. Croix) that had been repaired or renovated after Hurricane Marilyn and found that construction contractors did not satisfactorily complete all of the work required by their contracts as follows:

- The roof of the gymnasium at the Ivanna Eudora Kean High School on St. Thomas leaked, and, as a result, the floors of the gymnasium's main entrance, teachers' offices, and boys' restroom flooded after heavy rains. The contract required the contractor to remove and replace 8,000 square feet of seam roofing and temporary roofing, for which the contractor was paid \$263,000. The contract for all work to be performed at the High School was for an amount not to exceed \$1,488,941.

- At the Joseph Sibilly Elementary School on St. Thomas, the contractor was required to perform repair and reconstruction work that included renovating the art building. However, no work had been done on the art building since Hurricane Marilyn, and the contractor was paid \$481,000. The contract for all work to be performed at the School was for the amount of \$850,000.

- At the Arthur Richards Junior High School on St. Croix, repairs had not been made to the roof guttering; windows in classrooms; and ceiling tiles in the girls' restroom, auditorium, and kitchen. The contractor was required to perform the cited repairs on the entire school and had been paid a total of \$551,000. The contract for all work to be performed at the Junior High School was for the amount of \$618,427.

- At the Alexander Henderson Elementary School on St. Croix, the classroom roof leaked and ceiling tiles in the men's restroom still needed to be replaced. The contractor was paid \$116,300 to make these repairs. The contract for all work to be performed at the School was for the amount of \$129,257.

At the November 25, 1997, exit meeting on the preliminary draft report, the Commissioner of Education stated that corrective actions had been taken on some of the construction deficiencies noted. Specifically, he stated that (1) repairs to the roof of the gymnasium at the Ivanna Eudora Kean High School were completed, (2) the original contractor for the Joseph Sibilly Elementary School was dismissed and a new contractor was completing the necessary repairs, and (3) repairs at the Arthur Richards Junior High School and the Alexander

Henderson Elementary School on St. Croix were in process. The Commissioner also stated that the ongoing repair work was periodically inspected by representatives of the Department of Education and the Department of Planning and Natural Resources (the agency responsible for building code enforcement).

Payment Process. During the period of October to December 1995, contractors were paid \$918,490, although inspections were not performed and invoices and periodic estimates were not approved by the Governmental officials responsible for certifying that the work was accomplished satisfactorily. For example, in October 1995, a payment of \$87,869 was made to a contractor by means of a miscellaneous disbursement voucher. A memorandum from the Department of Education's Director of Business Affairs to the then-Commissioner of Education that was attached to the voucher stated that there were no (1) contracts in place for the construction work, (2) inspection reports to verify that work was completed satisfactorily, or (3) approvals by the authorized Government representatives to certify the work for payment. However, the voucher was certified for payment by the then-Commissioner of Education, and a check was issued to the contractor on October 27, 1995.

The Hurricane Recovery Managers and the subsequent project manager submitted contractors' invoices and periodic payment requests, along with their recommendations for approval of payment, to the Department of Education. The Department then prepared the payment vouchers and submitted the invoices, periodic payment requests, and vouchers to the Department of Property and Procurement for processing. The invoices and periodic payment requests were to be signed by authorized representatives of the Departments of Property and Procurement, Public Works, and Education certifying that the work was satisfactorily completed. However, in the 48 construction and professional services contract files that we reviewed, we found 65 payments (out of 154), totaling over \$21 million, that were made without all of the required approvals by Governmental representatives.

In addition, the invoices of the Hurricane Recovery Managers were not properly reviewed and approved. For example, during the period of December 20, 1995, to February 21, 1997, the Hurricane Recovery Managers submitted 10 invoices, totaling \$5.7 million, to the Governor's Authorized Representative (GAR).² A letter dated April 19, 1996, from the GAR to the Hurricane Recovery Managers which was attached to the miscellaneous disbursement vouchers stated that the GAR was giving "conditional approval" of the payments but that he had not performed a detailed review and verification of the Hurricane Recovery Managers' work. The letter further stated that the GAR "disavowed," at that time, the representations in the Certification of Authorized Government Representative but that the Government reserved the right, upon detailed review and verification, to make appropriate adjustments against future invoices. However, there was no documentation in the files indicating whether detailed reviews or payment adjustments were subsequently made. We believe that the GAR's disclaimers indicate that the correct review process was not followed with regard to the Hurricane Recovery Managers' invoices and that there was little assurance that amounts paid were reasonable and allowable.

²The "Governor's Authorized Representative" was the Virgin Islands Director of Management and Budget, who, in accordance with FEMA regulations, acted on the Governor's behalf in administering disaster assistance funds.

Building Code and Permits

The 1994 Uniform Building Code (which is incorporated by reference into Title 29, Chapter 5, of the Virgin Islands Code) requires that developers request a building permit before they begin construction by submitting a set of architectural plans to the Division of Permits of the Department of Planning and Natural Resources. Section 106.1 of the Building Code further requires that the building official issue a separate building permit for each structure erected, constructed, enlarged, altered, repaired, moved, converted, or demolished. Despite these requirements, which apply to Governmental facilities, the Government did not ensure that architectural plans were submitted for approval or that building permits were obtained for all repair work to the public schools. We found that plans and building permits were not available for 29 of 41 school construction projects. Additionally, correspondence in the contract files indicated that some of the construction work was not in compliance with the building code requirements. For example:

- A status report prepared by the Hurricane Recovery Managers in May 1996 stated that repair work at the Joseph Sibilly, Charlotte Amalie, and Kirwan Terrace schools was not in compliance with the building codes and recommended that the Government issue stop work orders to the respective construction contractors. On May 21, 1996, the Department of Property and Procurement issued a stop work order to the contractor working at the Charlotte Amalie High School. However, in a June 11, 1996, memorandum, the then-Commissioner of Education authorized the contractor to continue all repair work at the High School "that does not relate to meeting provisions of the Uniform Building Code or other code requirements." We found no documentation in the files to indicate whether followup actions were taken to have the contractor correct the building code violations that resulted in the stop work order or whether the Department of Education, the Hurricane Recovery Managers, or other representatives of the Government ensured that the contractor's subsequent work was in accordance with the Commissioner's instructions. We also did not find documentation in the files to indicate whether stop work orders were issued to the contractors at the Joseph Sibilly and Kirwan Terrace schools or whether the building code violations reported by the Hurricane Recovery Managers were corrected.

- In another instance, a new roof that was constructed at the Uller Muller School after Hurricane Marilyn was blown off the school by Hurricane Bertha in July 1996. The local media reported that an architect/engineer said that the new roof had not been constructed in accordance with building code requirements.

We believe that substandard construction work and the resultant potential for unsafe public schools existed because the Government and its representatives did not ensure that architectural plans were prepared and approved, building permits were issued, and building code requirements were met.

At the November 25, 1997, exit meeting on the preliminary draft report, the Commissioner of Education stated that repair work at almost all schools had subsequently been inspected by representatives of the Department of Education and the Department of Planning and Natural Resources and that, where necessary, additional work was performed to mitigate the

effects of repair work that originally was not in compliance with building code requirements. Specifically, he stated that corrective actions had been taken with regard to building code deficiencies at the Joseph Sibilly, Kirwan Terrace, and Uller Muller schools but that some problems still existed relating to the quality and timeliness of the repair work at the Charlotte Amalie High School. The Commissioner also stated that he had taken a "hard line" with contractors by refusing to approve payments in cases where the repair work was not performed in accordance with contract and building code requirements. Further, the Commissioner stated that the Department had obtained and compiled the contract files originally held by the Hurricane Recovery Managers and the subsequent project manager.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Direct the Department of Property and Procurement, in coordination with the Department of Public Works, to establish procedures for the contract oversight function which include assigning a Department of Public Works inspector to conduct regular inspections at each construction site and file appropriate inspection reports with the Department of Property and Procurement and to ensure that all appropriate Government representatives review and approve construction progress reports before periodic payments are made to contractors.
2. Direct the Department of Property and Procurement, in coordination with the Department of Planning and Natural Resources, to establish procedures which ensure that architectural plans are submitted and approved and building permits are issued for all Government construction projects.
3. Direct the Department of Public Works, in coordination with the Department of Planning and Natural Resources, to inspect all public schools which required construction work after Hurricane Marilyn to ensure that the work was performed in accordance with building code requirements. Any violations should be reported to the Department of Property and Procurement for subsequent correction by the contractors.
4. Direct the Department of Education to obtain a refund from (or make offsets against amounts that may be owed to) the contractor who was overpaid by \$5,418.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The January 29, 1998, response (Appendix 2) to the draft report from the Governor of the Virgin Islands, which we received on February 18, 1998, expressed concurrence with Recommendations 1, 2, and 3. The response also expressed nonconcurrence with Recommendation 4, which was revised based on additional information that one contractor was not overpaid because the contract amount was increased by an amendment. Based on the response, we request additional information for Recommendations 1, 2, and 3 and request

that the Governor respond to the revised Recommendation 4, which is unresolved (see Appendix 3).

General Comments on Finding

The Governor's response also included comments on the finding. The Governor's comments and our replies are as follows:

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree with our statement that "the Government did not maintain sufficient oversight of construction projects to ensure that repairs to public schools . . . were performed in accordance with existing requirements."

Office of Inspector General Reply. The examples in the report and our comments on the response, as discussed in the following paragraphs, provides the basis for our conclusion. For example, the response expressed concurrence with our statement that "inspection and progress reports were not always sufficiently detailed to support contractors' payment requests." As such, we believe that this concurrence further supports our overall conclusion because it acknowledges that contractors did not provide Government officials with sufficiently detailed information on which to make decisions concerning the quality and quantity of work performed by contractors.

Governor of the Virgin Islands Response. The response stated that the Department did not agree that contractors' requests for periodic payment "were not always approved." The response stated that the respective Governmental agencies approved "all requests for period payments" but that "the final approval signatures were that of the Department of Property and Procurement." The response acknowledged that the files at the Departments of Education and Public Works did not contain documentation to show that all necessary approvals had been obtained. The response further stated that the Department of Property and Procurement did not provide the Departments of Education and Public Works with copies of the payment requests that included all approval signatures.

Office of Inspector General Reply. In addition to the acknowledgment in the response that files at the Departments of Education and Public Works did not contain documentation to show that the necessary approvals had been obtained, our review also found that such documentation was not always present in the official contract files located at the Department of Property and Procurement. Therefore, we believe that the statement on the lack of appropriate documentation in the contract files was correct.

Governor of the Virgin Islands Response. The response stated that the Department did not agree that "building permits were not always obtained." The response further stated that although "immediate reconstruction/repairs . . . identified as Phase I Reconstruction/Repairs . . . were performed without building permits," Phase II permanent reconstruction/repairs were performed "in full compliance with the 1994 Uniform Building Code," including the requirement to obtain building permits. The response also stated that the auditors found that certain documents were absent from the files at the Department of

Education and the Department of Property and Procurement "because the Project Manager had not turned these files over to the Department of Education" but that the pertinent files were to be submitted to Property and Procurement by February 27, 1998.

Office of Inspector General Reply. We believe that these statements support our conclusion that the Government's official contract files were incomplete. Additionally, the response addresses only these missing documents that related to construction supervised by the Project Manager. Finding A of the report disclosed that at least one key document was missing from the files for all 48 construction projects we reviewed, including projects supervised by the Special Project Coordinator and the Hurricane Recovery Managers.

Governor of the Virgin Islands Response. The response stated that the Department did not agree that the Government "did not provide the required oversight of construction projects in that it allowed project management contractors rather than the Department of Public Works to supervise the construction and repairs." The response stated that Virgin Islands Code requirement with regard to supervision of construction contracts "was adhered to by the Department of Public Works who supervised the construction and repair of Government buildings under the Phase II reconstruction/repairs." The response further stated that "the Project Manager representing the Department of Education was authorized to provide project oversight in conjunction with the Department of Public Works."

Office of Inspector General Reply. The response provided information to show that construction work under Phase II was supervised by the Department of Public Works and that the Department of Education was represented by the Project Manager. The response did not address the lack of construction oversight during Phase I work or the lack oversight of the activities of the Special Project Coordinator and the Hurricane Recovery Managers. We believe that this is significant because most of the deficiencies discussed in the report relate to the activities of the Special Project Coordinator and the Hurricane Recovery Managers, primarily during Phase I. We acknowledged in the finding that the Project Manager "conducted joint inspections with an inspector from the Department of Public Works." Additionally, the only two reported deficiencies relating to the performance of the Project Manager did not address the Project Manager's oversight responsibilities but the fact that the firm was awarded its contract on a noncompetitive basis and that one of the firm's invoices contained an error that resulted in an overpayment of \$5,418.

Governor of the Virgin Islands Response. The response stated that the Department did not agree that "there was little assurance" that contractors who received more than \$21 million [incorrectly quoted in the Governor's response as "421 million"] for work on public schools performed in accordance with their contracts or that the work performed on the schools was in compliance with building code requirements. The response stated that the Department of Education "closely monitored" the activities of its project management contractors and that, as a result, "there was assurance that contractors performed in accordance with their contracts and that building code requirements were met."

Office of Inspector General Reply. The response acknowledged that repairs during Phase I were performed without building permits, that inspection and progress reports were

not always sufficiently detailed to support contractors' payment requests, and that only project management activities of the Project Manager were closely supervised by the Department of Education. We believe that these acknowledgments support our overall conclusion that the Government "did not maintain sufficient oversight of construction projects."

Governor of the Virgin Islands Response. The response stated that the Department did not agree that "two contractors were overpaid a total of \$12,363." The response stated that the Department of Public Works was requested to review the possible overpayment of \$5,418 to the Project Manager but that the construction contractor at Alexander Henderson Elementary School was not overpaid \$6,945 because the original contract (in the amount of \$109,356) was amended by a change order dated November 19, 1996, which increased the contract amount by \$19,901.

Office of Inspector General Reply. A copy of the contract change order referred to in the response was not in the official contract files during our audit. However, based on this additional information, we have revised the report to delete all references to the potential \$6,945 overpayment, but the Department needs to take action on the remaining \$5,418.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not concur that the Governor had the Hurricane Recovery Managers perform the Government's contract oversight responsibilities because the Hurricane Recovery Managers "worked in concert with the Department of Education" in carrying out contract oversight activities. Also, the response stated that the Department's Division of Engineering "will be directed" to research its files "to discover copies of all 'progress reports' which will support progress payment requests submitted by the contractors for 27 of 30 construction contracts" and that the Hurricane Recovery Managers' files located at the Department of Education "will be researched to discover architectural sketches and/or plans for the work performed" at the schools discussed in the finding. The response stated that such documents would be made available by February 3, 1998.

Office of Inspector General Reply. The response acknowledged that the files at the Department of Education would have to be researched to locate certain documents, including progress reports and architectural sketches and/or plans for projects supervised by the Hurricane Recovery Managers, so that the documents can be made available. We believe that this statement supports that such documents were not available at the time of the audit (March through August 1997). During the review, our auditors attempted to locate pertinent contract management documents in the files located at the Departments of Property and Procurement, Education, and Public Works, including files of the Hurricane Recovery Managers that were in the custody of the Department of Education. However, as of March 12, 1998, we had not received any of the subject documents from the Department of Education.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree that contractors were paid \$918,490 during the period of October to December 1995, "although inspections were not performed and invoices and periodic

estimates were not approved by the Government officials responsible for certifying that the work was accomplished." The response stated that inspections of the work performed were "executed" and that invoices and periodic estimates were approved by the Government officials "responsible for certifying that the work was accomplished satisfactorily" but that the Department of Property and Procurement did not submit copies of the approved documents for the files at the Departments of Education and Public Works.

Office of Inspector General Reply. We previously noted that inspection reports and approved invoices and periodic estimates for progress payments were not found in the contract files at the Departments of Education and Public Works or in the official files at the Department of Property and Procurement. As of March 12, 1998, we had not received any of the subject documents from the Department of Education.

Governor of the Virgin Islands Response. The response stated that the Department of Education did not agree with the "Building Code and Permits" section in Finding B because, although "work performed under Phase I reconstruction/repairs [was] performed without building permits," all work under Phase II "was done in full compliance with the 1994 Uniform Building Code; the required drawings and specifications were prepared . . . and the necessary Building Permits received." The response also stated that the auditors did not find these documents in the files at the Departments of Education and Property and Procurement because "the Project Manager had not turned these files over to the Department of Education." The response further stated that "all work performed under the Phase I reconstruction/repairs, which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the . . . Code."

Office of Inspector General Reply. Key documents relating to compliance with the building permit and building code requirements were not made available during the audit. We reviewed the official contract files at the Department of Property and Procurement, additional contract files at the Departments of Education and Public Works, and files of the Hurricane Recovery Managers that were in the custody of the Department of Education. With respect to all of the files reviewed, there were instances in which we could not locate documents to show that building permit and building code requirements were met. As of March 1998, we had not received any of the subject documents from the Department of Education. In addition, the response acknowledges that "work performed under Phase I reconstruction/repairs [was] performed without building permits." Further, during a separate audit of building permit fees of the Department of Planning and Natural Resources (Report No. 98-I-191, dated December 1997), we also reviewed building permit files pertaining to hurricane-related repairs to Government buildings (including public schools). As stated in the report, the Permits Manager of the Department of Planning and Natural Resources "told us that 'most' of the 67 building permits issued to Government of the Virgin Islands agencies for reconstruction and repair work after Hurricane Marilyn were based on 'as built' plans, meaning that the architectural plans were prepared and approved after-the-fact."

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Questioned Costs</u>
B. Contract Oversight	
Documentation of Oversight Activities	\$5,418*

* Amount represents local funds



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
809-774-0001

January 29, 1998

Honorable Wilma A. Lewis
Inspector General
U.S. Department of the Interior
Office of the Inspector General
Washington, D.C. 20240

**Subject: Draft Audit Report on Hurricane Related
Contracting, Department of Education,
Government of the Virgin Islands,
V-IN-VIS-002-97**

Dear Inspector General Lewis:

This is to acknowledge receipt of your Draft Audit Report on Hurricane Related Contracting, Department of Education, Government of the Virgin Islands, V-IN-VIS-002-97.

The Following is our official response to the above-referenced Draft Audit Report which was prepared by our Audit Response Task Force in the Department of Education.

BACKGROUND

On September 15, 1995, Hurricane Marilyn struck the United States Virgin Islands, causing extensive damage to public and private facilities. As a result, the President of the United States issued a major disaster declaration, which allowed the Federal Emergency Management Agency, (FEMA) to provide disaster assistance funds in accordance with the Stafford Disaster relief and Emergency Assistance act, as amended (Public Law 100-707). FEMA provided the Government of the Virgin Islands with \$22.7

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million in disaster assistance funds for school repairs, consisting of \$15 million for the acquisition of modular classrooms to be used at certain public school, and \$5.7 million for an overall project management contract with the Hurricane Recovery managers. In addition, the Department of Education received a total of \$27.7 million from insurance proceeds and \$6 million from local bond proceeds for the repair and reconstruction of public schools. During the fiscal years 1996 and 1997, the Government awarded 41 construction contracts and 44 professional services contracts, totaling about \$51.4 million, that related to the repair and reconstruction of the schools.

"The Department of Education concurs with this finding."

In September 1995, immediately after Hurricane Marilyn struck, the Government conducted a survey of the public school facilities to determine the extent of the damage. An official from the Department of Public Works was assigned as a Special Projects Coordinator, with the responsibility to hire contractors to perform emergency debris removal and repair work at the schools.

"The Department of Education concurs with this finding."

In December 1995, the Government hired a joint venture of two off-island architectural/engineering firms (commonly referred to as the Hurricane Recovery Managers) to act as its overall project manager for all hurricane-related construction, including repairs to public schools. According to their contract, the Hurricane Recovery Managers were responsible for preparing solicitation packages for architectural/engineering and construction services, soliciting and evaluating proposals from contractors, supervising construction work, maintaining financial oversight control of FEMA and other funds available for construction work, preparing construction progress reports, and coordinating with vendors for the purchase and delivery of materials. The contract was in the amount of \$5.7 million plus a maximum of \$748,000 in additional fees. However, in June 1996, the Government and the Hurricane Recovery Managers mutually agreed to terminate the contract, primarily because of disagreements concerning the quality and speed of work performed by contractors at some public schools.

"The Department of Education concurs with this finding."

In August 1996, the Government awarded a \$1.9 million contract, effective retroactively to late June 1996, to a local architectural/engineering firm to act as the Government's project manager for Department of Education construction projects. According to the contract, the project manager's responsibilities included providing detailed architectural drawings for repair work, preparing cost estimates monitoring construction work through frequent on-site visits, ensuring that construction work was in accordance with the building codes, preparing and submitting to the Government any necessary construction contract change orders, and reviewing and recommending approval of contractor requests for progress payments. The contract remained in effect, with three extensions through July 31, 1997.

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“The Department of Education concurs with this finding.”

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether: (1) construction contracts were awarded in accordance with applicable laws and regulations; (2) controls existed to ensure that construction work was performed in accordance with building codes and other requirements; and (3) payment to contractors were reasonable, allowable, and allocable in accordance with contract provisions. The scope of the audit included contracts for hurricane-related construction and professional services awarded by or for the Department of Education during fiscal years 1996 and 1997. We selected for review a judgement sample of 18 (out of 44) professional services contracts and 30 (out of 41) construction contracts, totaling over \$49.8 million, that were awarded by the Department of Education, “The Department of Education states a non-concurrence with this finding.” The preceding statement indicates the Department of Education awarded construction contracts, all contracts were awarded by the Department of Property and Procurement and the Hurricane Recovery Managers” the Department of Property and Procurement, or the Hurricane Recovery Managers. The audit was performed at the Departments of Property and Procurement, Education and Public Works. We also made site visits to 30 public schools to observe the construction work.

“The Department of Education concurs with the contents of the latter part of the preceding paragraph.”

Our review was made, as applicable, in accordance with the “Government Auditing Standards,” Issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our review, we evaluated the Government’s system of internal controls related to the award and oversight of construction contracts and the accountability of funds for the hurricane-related contracts. The internal control weaknesses we identified in these areas are addressed in the Findings and recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

The Office of Inspector General has issued two reports during the past 5 years regarding

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hurricane-related construction for public schools in the Virgin Islands. The survey report "Procurement Practices for Hurricane-Related Repairs to Public Schools, Government of the Virgin Islands: (No. 96-E-1113), dated August 1996, concluded that the operating officials at the Departments of Education and Public Works did not always comply with the procurement requirements and there was no assurance that the Government received the most favorable prices, terms and conditions with regard to emergency debris removal and repair services acquired at a total cost of more than \$1.5 million for public schools. We recommended that the Governor of the Virgin Islands direct all Executive Branch agencies to: (1) submit hurricane-related work requirements to the Department of Property and Procurement and "Hurricane-related work requirements will retroactively be submitted to the Department of Property and Procurement by March 15, 1998; (2) ensure that the procurement process includes the use of competitive proposals to the maximum extent practicable, the issuance of formal contracts before work was started, and the maintenance of complete files documenting the procurement actions taken with regard to each contract.

"The Department of Education concurs with the contents of the latter part of the preceding paragraph."

The audit report "Construction Contracts, Capital Improvement Program, Government of the Virgin Islands" (No. 94-I-1194), dated September 1994, included a review of contracts awarded to repair damage to schools caused by Hurricane Hugo in September 1989. With regard to procurement practices, the report concluded that: (1) the Department of Property and Procurement did not adequately document actions taken to procure construction services and did not ensure the competitive procedures were used to the maximum extent practicable and (2) the Government and the Program Management Consultant did not provide adequate oversight of construction projects. As a result, 7 contracts, totaling \$4.5 million, were not awarded to the lowest proposers; and 14 contracts, totaling \$18 million, did not have sufficient information in the contract files to determine whether competitive procurement procedures had been used. Additionally, "the report questioned construction costs of about \$8 million charged against a grant from the U.S. Department of Education" and "\$2.7 million paid to the Project Management Consultant." With regard to contracts for repairs to public schools, we recommended that the Governor of the Virgin Islands ensure that: (1) the Department of Property and Procurement adheres to the competitive procurement requirements of the Virgin Islands Code and Virgin Islands Rules and Regulations, establishes formal policies and procedures regarding the contents of construction contract files, and enforces existing policies and procedures with regard to the issuance of change orders and supplemental contracts; (2) inspectors from the Department of Public Works or other inspectors authorized by the Department conduct regular inspections at each construction site and file appropriate inspection reports "The Department of Education

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concurs with the contents of the preceding paragraph.”; and (3) the Department of Education provides the U.S. Department of Education with supporting documentation for the \$8 million in questioned construction costs and the \$2.7 million in questioned payments to the Project Management Consultant so that the funding agency could make a determination as to the allowability of those costs. “The Department of Education concurs with item (3) and will provide the requested supporting documentation by April 15, 1998; the official responsible for the implementation of this task is the Honorable Liston A. Davis Commissioner, Department of Education.”

Our current review disclosed procurement and contract oversight deficiencies similar to those identified in the two prior reports.

FINDINGS AND RECOMMENDATIONS

A. CONTRACT AWARD

The Government did not maintain sufficient oversight of the procurement process to ensure that contracts related to repairs to public schools damaged by Hurricane Marilyn were awarded in an effective manner. Specifically, the Department of Public Works on behalf of the Department of Education, allowed construction contractors on St. Thomas to perform work without competition or formal contracts and issued “after-the-fact” purchase orders for services for the Department of Education, “The Department of Education concurs with this finding.” However be reminded accordingly, (1) following the devastating effects of Hurricane Marilyn it was necessary to effect repairs/construction work on an immediate basis to facilitate the expeditious reopening of the schools. The Department of Public Works in conjunction with the Department of Education had their focus set on early commencement and completion of reconstruction/repairs of the schools and in consequence bypassed the Department of Property and Procurement. Although the Department of Property and Procurement is charged with the procurement of services, their time consuming methods would have placed the school reopening program in jeopardy; and (2) the encumbering of contractual funds and preparation of contractual documents is another necessary but time consuming exercise which would have further delayed the repairs/reconstruction process .” and the Hurricane Recovery Managers

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used procurement procedures that did not provide the required level of competition. In addition, procurement files did not adequately document whether competitive procedures were used. The Virgin Islands Code and the Virgin Islands Rules and Regulations contain the requirements for competitive procurement. However, the Government did not provide adequate oversight of the procurement process in that the Department of Property and Procurement, which has overall responsibility for Government procurement, was excluded for the most part from the process and the procurement procedures did not allow for the active involvement of third parties, such as the Department of Education and Public Works and the Hurricane recovery Managers. As a result, the Government had little assurance that it receive the most favorable prices, terms, and conditions with regards to construction and other contractual services acquired at a total cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000.00 **"The Department of Education concurs with this findings of the preceding paragraph."**

Procurement Requirements

Title 31, Section 239, of the Virgin islands Code provides that purchases may be made without the use of formal advertisement and competitive bidding when, among other exceptions, the "Governor declares in the public interest that a State of Emergency exists and specifies in such Proclamation this purchases and/or services which may be obtained without competitive bidding," *The emergency proclamation that the Governor issued after Hurricane Marilyn allowed Government agencies to procure goods and services without formal advertising.* **"The Department of Education concurs with this finding."** *However, the proclamation required that responsible agencies "negotiate on a competitive basis" and "make every reasonable effort to obtain the most favorable prices, terms, and conditions for the Government.* **"The Department of Education states a concurrence with this finding."**

Title 31, Section 234, of the Virgin Islands Code, which was not waived by the Governor's emergency proclamation, states that "no purchase shall be made by any department or agency of the government or by any employee of the government for any agency of the government except by written order approved by the Commissioner of Property and Procurement ." The penalties for violation of the requirements include personal liability for the purchase price, a fine of not more than \$200, and/or dismissal from employment. **"The Department of Education concurs with this finding."**

Procurement Methods Used

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*Although Title 31, Section 234, of the Virgin Islands Code designated the Commissioner of Property and Procurement as the procuring official for the Government of the Virgin Islands, the Department of Education and the Hurricane Recover Managers executed their own procurement for emergency debris removal and repair work at the public school facilities; Of the 30 construction contracts we selected for review, we found that 20 contracts, totaling \$18.7 million, were awarded noncompetitively and without the involvement of the Department of Property and Procurement. **"The Department of Education concurs with this finding."***

Special Project Coordinator: *After Hurricane Marilyn struck the Virgin islands on September 15, 1995, the Department of Education used a Special Project Coordinator from the Department of Public Works to supervise and coordinate the repairs to the public schools on St. Thomas and St. John. This occurred without coordination with the Department of Property and Procurement, and, as a result, the Department of Education allowed the Special Project Coordinator to hire construction contractors noncompetitively. The Department of Education also did not execute formal contracts with the contractors before work commenced, as required by the Virgin Islands Code, to specify the detailed scope of work, method of payment, procedures for inspection of work, resolution of disputes, and other standard contract provisions to protect the interests of both the Government and the contractors. **"The Department of Education concurs with this finding."***

After the hurricane, the Coordinator, through a public radio announcement, requested that contractors which had performed work on the schools during the summer restoration program provide emergency debris removal and repair services at the public schools damaged by Hurricane Marilyn. The Coordinator requested that the contractors submit a statement of general scope of work before they were assigned to perform work on the same structures they had worked during the summer. However, we found 3 contracts, out of 30 awarded with the assistance of the Coordinator, that were prepared and executed after the contractors had started repairs. For example:

*- On December 7, 1995, a construction contract for \$1.2 million was awarded to a contractor for repairs to a St. Thomas elementary school **Namely Edith Williams Elementary School."** A contractor invoice for \$347,670 showed that construction work had begun on October 1, 1995. The Department of Property and Procurement was not involved in awarding this contract, which was executed after work had started. **"The Department of Education concurs with this finding."***

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On December 7, 1995, a construction contract for \$850,000 was awarded for repairs to another St. Thomas elementary school. A contractor invoice for \$140,546 showed that construction work had begun before October 15, 1995 "Namely Joseph Sibilly Elementary School." Additionally, there was no abstract of bids or a bid evaluation report in the contract files to indicate whether more than one contractor was given the opportunity to submit a proposal for this contract. An October 27, 1995, transmittal memorandum from the Department of Education's Director of Business Affairs to the then-Commissioner of Education stated that a contract was not in place at the time that work began, inspection reports had not been prepared to verify that the job was satisfactorily completed, and approvals for payment had not been obtained from all of the appropriate Government official. Nevertheless, a miscellaneous disbursement voucher for \$87,869 was processed, and the contractor paid.

In an October 23, 1995, letter to the Governor, the Commissioner of Property and Procurement stated:

*Contrary to the provisions of title 31 V.I.C. [Virgin Islands Code] Section 239, the procurement regulations for open market purchases, the Department of Property and Procurement was kept completely out of the process [by the Department of Education]. As a result we cannot protect the governor's interest relative to costs, terms, completion dates, and assessments on those contracts; **"The Department of Education concurs with this finding."***

*In an internal memorandum dated October 30, 1996, an employee of the Department of Property and Procurement reported to the Commissioner that there were significant variances in the estimated costs for emergency construction work performed by the contractors on 10 Department of education projects. While the contractors submitted invoices totaling \$6.8 million for emergency repairs performed at Department of Education facilities, architect/engineers representing the government estimated that the work performed by the contractors was valued at \$2.3 million, for an overall variance of \$4.5 million. As of October 1997, these variances had not been resolved. **"The Department of Education does not concur with this finding."** A review of some of the documents of contention, namely Addelita Cancryn Junior High School and the Ralph O. Wheatley Skill Center, it was very obvious that in some instances the architect/engineer's unit prices were below normal Virgin islands prices, for construction, during normal circumstances. This even made some of the unit prices even more unreal since the work was done*

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during a time of great emergency when material were being sold at a premium due to its scarcity and labor costs were high due to the scarcity of manpower. However in other cases such as Joseph Gomez and Evelyn Marcelli Elementary Schools, there was justification for questioning some of the prices submitted by contractors and the quantities of work which they claimed to have completed.

We also found that, although Title 31, Section 234, of the Virgin Islands Code requires that purchases be made by written orders, the Department of Public Works procured services for the Department of Education without purchase orders. Specifically, we found that nine purchase orders, totaling \$164,000, were prepared after the work was completed. The Department of Public Works sent contractors' invoices to the Department of Education, which prepared and submitted purchase orders to the Department of Property and Procurement for approval. We believe that the submission of the purchase orders to the Department of Property and procurement was an "after-the-fact" process that was contrary to the requirements of title 33, section 234, of the Virgin Islands Code. " The Department of Education concurs with your findings, however in the interest of expeditious reconstruction/repairs, the Department of Public Works was of great assistance since they were able to acquire the services of contractors, who also supplied materials during a period when labor and materials were a scarcity.

Hurricane Recovery Managers: *In December 1995, the Government of the Virgin Islands hired the Hurricane Recovery Managers, at a cost of \$6.5 million, to serve as overall project managers for all hurricane-related construction projects. As a result the Department of Property and Procurement was excluded, except for approving contractors recommended by the firm, because the firm acted independently in soliciting, evaluating and negotiating with contractors for architectural, engineering and construction services for structural repairs to be performed at public schools damaged by Hurricane Marilyn. "The Department of Education does not concur with this finding." The Hurricane Recovery Managers did not operate independently of the Government; they worked in concert with the (GAR) and the Department of Property and Procurement.*

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*Under procedures established by the Hurricane Recovery Managers, contractors were solicited through the local media, direct mailings and personal contacts after a Department of Education official prioritized the schools requiring repair work. The responding contractors filled out qualification statements which were submitted to the Hurricane Recovery Managers, who screened the contractors based on data in these statements and prepared a list of qualified contractors. A selection board composed of representatives of the Hurricane Recovery Managers interviewed the contractors, asking questions regarding their ability to perform the work required. Based on the information in the qualification statements and the responses to the selection boards's questions, the Hurricane Recovery Managers recommended contractors to the Commissioner of Property and Procurement for final approval before the Hurricane Recovery Managers negotiated contracts with the selected contractors. The Hurricane Recovery Managers used construction master agreements as the basic contracts and assigned and controlled specific projects through task orders to the contractors. The task orders contained a description of the services required, drawings and specifications as applicable, the time frame for performance, the agreed-upon price, and the terms of payment. **"The Department of Education concur with this finding."***

*However, the proposal, selection, and awarding procedures established by the Hurricane Recovery Managers differed from the Government's standard procurement process because they did not: (1) include the Department of Property and Procurement as an integral part of the process; **"The Department of Education does not concur with this finding."** (2) require the solicitation of competitive proposals for each contract to be awarded; **"The Department of Education concurs with this finding."** (3) include Governmental representatives on the contractor selection committee **"The Department of Education concurs with this finding."** Additionally, the Government did not have a system to monitor the Hurricane Recovery Managers' activities and to maintain adequate control over the construction contracts awarded by the Hurricane Recover Managers; **"The Department of Education does not concur with this finding."** The Department of Education worked closely with the Hurricane Recovery Managers; attended weekly staff meetings; received reports; manpower and construction schedules; and maintained oversight of their activities." As a result, there was no opportunity for competition among the contractors in the pool to ensure that the Government received the most favorable prices for repair work at the public schools, and there was little assurance that the Hurricane Recovery Managers and construction contractors performed in accordance with their contracts. **"The Department of Education does not concur with this finding."** The unit prices which the Hurricane*

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Recovery Managers mandated for repair work at the public schools were acceptable and in the best interest of the Government; and construction contractors performed in accordance with their contracts."

Project Manager: *On August 29, 1996, the Government, after mutually agreeing with the Hurricane Recovery Managers to terminate their contract, awarded a \$1.9 million professional services contract noncompetitively to a former employee of the Department of Education to oversee completion of repair and reconstruction work at the public schools;* **"The Department of Education concurs with this finding."** *The contract was effective retroactively to June 24, 1996. The contractor told us that the then-Commissioner of Education offered him the contract. As such, this contract was awarded without adherence to the competitive procurement requirements of Title 31; Chapter 23, of the Virgin Islands Code.* **The Department of Education concurs with this finding."**

We believe there was little assurance that the Government of the Virgin Islands received the most favorable prices, terms, and conditions for construction and other contractual services acquired at a cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000 because the Special Project Coordinator completely bypassed the Department of Property and Procurement, did not solicit competitive proposals, and did not issue written contracts or purchase orders; the Hurricane recovery managers used procurement procedures that differed from the Government standard procurement process, and the project manager was not selected competitively. **"The Department of Education does not concur with the findings of the preceding paragraph."** **The Government of the Virgin Islands received the most favorable prices, terms, and conditions for construction and other contractual services acquired at a cost of more than \$21.5 million and for "after-the-fact" purchase orders totaling \$164,000; it is true that the Special Project Coordinator completely bypassed the Department of Property and Procurement, did not solicit competitive proposals, and did not issue written contracts or purchase orders; nonetheless predicated upon the emergency condition which prevailed, the Special Projects Coordinator acted in good faith on behalf of the Government. It is true that the Hurricane recovery Managers used procurement procedures that differed from the Government standard procurement process, however the Hurricane Recovery Managers**

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operated in concert with the GAR and the Department of Property and Procurement. The Commissioner of Education agrees that the Project Manager was not selected competitively; but time was of the essence and predicated upon the knowledge and experience of the Project Manager (an architect and ex-employee of the Department of Education) it was in the best interest of the Government to utilize this Project Manager as he possessed a thorough understanding of all the facets of contracting; payment requests; inspections and in general project oversight.

Contract Files

The official contract files maintained by the Department of Property and Procurement were not complete and did not contain sufficient documentation of procurement actions taken for the construction and professional services contracts reviewed; "The Department of Education concurs with the finding. of the preceding paragraph" Based on our review of the 48 contract files selected, we determined that all of the files were missing at least one key document. For example, 23 files did not contain invitations for bids or requests for proposals, 29 files did not contain copies of the original plans and specifications, 30 files did not contain bonding information, 21 files did not contain copies of the contractor's business licenses, 37 files did not contain abstract of bids, 32 files did not contain evaluation committee reports, 17 files did not contain notices to proceed, and 29 files did not contain building permits. Additionally, the files for 18 contracts, totaling \$12.6 million, of the 30 construction contracts we reviewed did not contain sufficient documentation for us to determine whether competitive procurement procedures had been used; "The Department of Education concurs with the findings of the preceding paragraph." Because the Department of Education; "the GAR" and the Hurricane Recovery Managers procured services in accordance with their own procedures, there was little assurance that documents were forwarded to the Department of Property and Procurement for the official contract files. Without complete contract files, the government may not be able to defend its position in the event of (1) claims by unsuccessful contractors that they should have been awarded the contracts (2) disputes between the Government and successful contractors over the terms, conditions, or price of the contracts. "The Department of Education concurs with this finding."

At the November 25, 1997 exit meeting on the preliminary draft report, the Commissioner of Education stated that in the immediate aftermath of the hurricane, there was "confusion" among

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Government agencies as to the accepted procurement practices to be followed under the Governor's emergency proclamation but that later procurement actions were made using procedures which were more in compliance with the legal requirements. The Commissioner also stated that his department had developed contingency plans for procuring emergency debris removal and school repair services should another hurricane strike the Virgin Islands. The Department of Education concurs with the contents of the preceding paragraph"

Recommendations

We recommend that the Governor of the Virgin islands:

- 1. Ensure that the Department of Property and Procurement carries out its procurement responsibilities in accordance with Title 31, Chapter 23 of the Virgin Islands Code and the Virgin islands Rules and regulations, including the use of competitive procedures to the maximum extent practicable and the issuance of formal contracts before work begins.*
- 2. Enforce Title 31, Section 234 of the Virgin islands Code, which requires that purchases be by written orders approved by the Department of Property and Procurement.*
- 3. Ensure that the Department of Property and Procurement maintain contract files which adequately documents the procurement process. Specifically, the contract files should contain, as appropriate, the invitation for bids or request for proposals; all bids or proposals received, including contractor qualification statements, evidence of bonding or surety, copies of business licenses, and other documents that are required as part of a complete bid package; bid abstract sheets of individual committee members and the final bid evaluation committee report; executed contracts and any subsequent amendments, supplements, or change orders; notices of award and notices to proceed; correspondence related to the contracts; progress payment requests and other documents related to payments to contractors; and documents related to actions taken with regards to any deficiencies noted, including the assessment of liquidated damages.*

I have directed the Commissioner of Property and Procurement to meet all of the requirements of the three above recommendations and to report to me the status of his actions within thirty days.

2 CONTRACTOVERSIGHT

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The Government did not maintain sufficient oversight of construction projects to ensure that repairs to public schools damaged by Hurricane Marilyn were performed in accordance with existing requirements. Specifically, Contractors' requests for periodic payment were not always approved
"The Department of Education does not concur with this finding." All requests for periodic payments were always approved by the respective Governmental Agencies; however, the final approval signatures were that of the Department of Property and Procurement. It is their responsibility to ensure that the other Governmental Approval Agencies received duly approved copies of all requests for payments for their files; this was not done and in consequence the files at the Department of Education and the Department of Public Works did not reflect all approval signatures. I will mandate that the Department of Property and Procurement ensure that all approval agencies be provided with copies of all payment requests documentation in the future.", *inspection and progress reports were not always sufficiently detailed to support contractors' payment requests; "The Department of Education concurs with this finding."* and building permits were not always obtained; **"The Department of Education does not concur with this finding."** Following the aftermath of Hurricane Marilyn, immediate reconstruction/repairs was performed and identified as Phase I Reconstruction/Repairs; building; work performed under the Phase I banner were performed without building permits. Under the Phase II banner permanent reconstruction/repairs were performed ; all such work was done in full compliance with the 1994 Uniform Building Code; the required drawings and specifications were prepared, submitted to the Department of Planning and Natural Resources and the necessary Building Permits received. When the auditors reviewed the files at the Department of Education and the Department of Property and Procurement their findings indicated the absence of these documents; this was because the Project Manager had not turned these files over to the Department of Education. At present however, said documentation is at the Department of Education who will be transmitting copies of said

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documentation to the Department of Property and Procurement for their files by February 27, 1998." *The Virgin Islands Code requires the Department of Public Works to supervise the construction and repair of Government buildings and specifies the conditions for obtaining building permits. However, the Government did not provide the required oversight of construction projects in that it allowed project management contractors rather than the Department of Public Works to supervise the construction and repair of public schools and did not have procedures for monitoring the activities of the project management contractors. As a result, there was little assurance that construction and professional services contractors who received over 421 million for work on public schools performed the work in accordance with their contracts or that the work performed on the schools was in compliance with building code requirements, thus creating the potential for safety deficiencies in the public schools. We also found that two contractors were overpaid a total of \$12,363.* **"The Department of Education does not concur with this finding."** The requirements set forth in The Virgin Islands Code were adhered to by the Department of Public Works who supervised the construction and repair of Government buildings under the Phase II reconstruction/repairs, for which all building permits were obtained. The Government did provide the required oversight of construction projects; the project Manager representing the Department of Education was authorized to provide project oversight in conjunction with the Department of Public Works on the construction and repair of public schools. The Department of Education closely monitored the activities of its project management contractors. As a result, there was assurance that construction and professional services contractors who received over 421 million for work on public schools performed the work in accordance with their contracts and that all work performed on the schools under the Phase II reconstruction/repairs was in compliance with building code requirements, thus eliminating the potential for safety deficiencies in the public schools." *We also found that two contractors were overpaid a total of \$12,363; "The Department of Education does not concur with this finding."* The findings states that two (2) contractors were overpaid a total of \$12,363.90, which consisted of payments to the project manager, Caribbean Professional Consultants, and Custom

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Builders. With reference to Caribbean Professional Consultants, this finding has been forwarded to the Department of Public Works for a response. Attached, please find copy of memorandum dated January 23, 1998 to the Commissioner of Public Works from the Commissioner of Education transmitting a copy of the draft report to be reviewed, investigated and responded to by that agency by February 4, 1998.

Custom Builders was awarded contract No. CC-35-DE-T-96 dated July 27, 1996 in the amount of \$109,355.83 to repair Alexander Henderson Elementary School on St. Croix. Subsequently, Change Order No. 1 dated November 19, 1996 and approved by the Commissioner of Education on 2/10/97 increasing this contract by the amount of \$19,900.74, thus, changing the total amount of this contract to \$129,256.57, charged to account code: 3132-25620-000-PPE-TO3106.

Documentation of Oversight Activities

Title 3, Section 138, of the Virgin Islands Code requires the Department of Public Works to supervise the construction and repair of all government buildings. However, during the period of October to December 1995, which was the period of time prior to the contract with the Hurricane Recovery Managers, the Government did not maintain documentation showing whether the construction projects were inspected by the Department of Public Works; “The Department of Education does not concur with this finding.” Additionally, during the period of December 1995 to June 1996, the Government had the Hurricane Recovery Managers carry out the Government’s contract oversight responsibilities; “The Department of Education does not concur with this finding.” The Hurricane Recovery Managers worked in concert with the Department of Education” Specifically, the Hurricane Recovery Managers were required to: (1) review architectural designs and plans prepared by contracted architects/engineers; (2) monitor design and construction activities; and (3) provide the Government with construction progress reports. However, we found no “progress reports” in the contract files to support progress payment requests submitted by the contractors for 27 of the 30 construction contracts reviewed; “The Department of Education does not concur with this finding.” The Department of Education, Division of Engineering, will be

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directed to research their files to discover copies of all "progress reports" which will support progress payment requests submitted by the contractors for 27 of the 30 construction contracts reviewed, February 27, 1998.

Additionally, in a February 20, 1996, memorandum to the Commissioner of Property and Procurement, the Hurricane Recovery Managers indicated that their contractor selection process was focused on identifying qualified architectural/engineering firms for four schools. However, during our review of the Hurricane Recovery Managers' files located at the Department of Education, we found no architectural sketches or plans for the work performed at the schools; "The Department of Education does not concur with this finding." The four schools in question were (1) Bertha C. Boschulte Junior High School; (2) Lockhart Elementary School; (3) Peace Corps Elementary School and (4) Joseph Sibilly Elementary School; However, the Hurricane Recovery Managers' files located at the Department of Education, will be researched to discover architectural sketches and/or plans for the work performed at the schools in question. Documentation was submitted to the Department of Education showing how the Hurricane Recovery Managers monitored and reviewed the work of contractors, there was assurance that the construction firms fulfilled their contractual obligations. There is also documentation in the files to show that the Government monitored the activities of the Hurricane Recovery Managers to ensure that they carried out their contractual obligations as the Government's overall project management consultant, said files will be made available by February 13, 1998."

The project manager hired in June 1996 to replace the Hurricane Recovery Managers conducted joint inspections with an inspector from the Department of Public Works of construction work performed at the public schools; "The Department of Education does not concur with this finding." But the project manager's invoices did not provide sufficient details to support the quantity or quality of work he performed; The Department of Education concurs with this finding." For example, the project manager's first invoice, dated August 19, 1996, billed the Government \$222,528 for services rendered during the period of June 23 to August 17, 1996. However, the supporting documentation attached to the invoice indicated that only \$214,179 was owed for 3,355 hours of staff time and \$2,931 was owed for mileage on the firm's

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vehicles. Therefore, the project manager was overpaid \$5,418; **The Department of Education concurs with this finding;** and will correct this overpayment. Additionally, the invoice did not indicate which schools were visited or the type of services provided at each school. **The Department of Education concurs with this finding.”** and will provide modified invoices which will indicate schools and the type of services provided respectively.”

During May and June 1997, we made on-site visits to 30 public schools (12 on St. Thomas and 18 on St. Croix) that had been repaired or renovated after Hurricane Marilyn and found that construction contractors did not satisfactorily complete all of the work required by their contracts as follows:

The roof of the gymnasium at the Ivanna Eudora Kean High School on St. Thomas leaked, and, as a result, the floors of the gymnasium's main entrance, teachers' offices, and boys' restroom flooded after heavy rains. The contract required the contractor to remove and replace 8,000 square feet of seam roofing and temporary roofing, for which the contractor was paid \$263,000. The contract for all work to be performed at the High School was for an amount not to exceed \$1,488,941.; **“The Department of Education concurs with this finding.”** with your findings, however corrective actions has been taken and repairs to the roof of the gymnasium at the Ivanna Eudora Kean High School is now complete.

At the Joseph Sibilly Elementary School on St. Thomas, the contractor was required to perform repair and reconstruction work that included renovating the art building. However, no work had been done on the art building since Hurricane Marilyn, and the contractor was paid \$481,000. The contract for all work to be performed at the School was in the amount of \$850,000. **“The Department of Education concurs with this finding.”** Corrective actions has been taken. The original contractor for the Joseph Sibilly Elementary School was dismissed and a new contractor is presently completing the necessary repairs.

At the Arthur Richards Junior High School on St. Croix, repairs had not been made to the roof guttering; windows in classrooms; and ceiling tiles in the girls' restroom, auditorium, and kitchen. The contractor was required to perform the cited repairs on the entire school and had been paid a total of \$551,000. The contract for all work to be performed at the Junior High School was in the

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amount of \$618,427. **"The Department of Education concurs with this finding." However, corrective actions has been taken. Repairs to the Arthur Richards Junior High School is presently in progress."**

At the Alexander Henderson Elementary School on St. Croix, the classroom roof leaked and ceiling tiles in the mens' restroom still needed to be replaced. The contractor was paid \$116,300 to make these repairs. The contract for all work to be performed at the School was in the amount was in the amount of \$109,355, indicating that the contractor was overpaid by \$6,945. **"The Department of Education concurs with this finding." However, corrective actions has been taken and repairs to the the Alexander Henderson Elementary School on St. Croix is presently in progress. Be advised however, that the repairs presently in progress are as specified in the contractors scope of work. Additional repairs will be required to the school in question, and as such a new scope of work will be formulated and a contract put in place for the execution of such work.**

At the November 25, 1997, exit meeting on the preliminary draft report, the Commissioner of Education stated that corrective actions had been taken on some of the construction deficiencies noted. Specifically, he stated that: (1) repairs to the roof of the gymnasium at the Ivanna Eudora Kean High School was completed; (2) the original contractor for the Joseph Sibilly Elementary School was dismissed and a new contractor was completing the necessary repairs; and (3) repairs at the Arthur Richards Junior High School and the Alexander Henderson Elementary School on St. Croix were in process. The Commissioner also stated that the ongoing repair work was periodically inspected by representatives of the Department of Education and the Department of Planning and Natural Resources (the agency responsible for building code enforcement).

Payment Process. *During the period of October to December 1995, contractors were paid \$918,490, although inspections were not performed and invoices and periodical estimates were not approved by the Governmental officials responsible for certifying that the work was accomplished satisfactorily; The Department of Education does not concur with this finding;"***During the period of October to December 1995, contractors were paid \$918,490, inspections of the work performed was executed and invoices and periodical estimates approved by the Governmental officials responsible for certifying that the work was accomplished satisfactorily";** *For Example, in October 1995, a payment of \$87,868 was made to a contractor (Namely, Morgan*

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Construction) by means of a miscellaneous disbursement voucher. A memorandum from the Department of Education's Director of Business Affairs to the then-Commissioner of Education that was attached to the voucher stated that there were no: (1) contracts in place for the construction work; (2) inspection reports to verifying that work was completed satisfactorily; or (3) approvals by the authorized Government representatives to certify the work for payment. However, the voucher was certified for payment by the then-Commissioner of Education, and a check was issued to the contractor on October 27, 1995; **"The Department of Education concurs with this finding."**

The Hurricane Recovery Managers and the subsequent project manager submitted contractors' invoices and periodic payment requests, along with their recommendations for approval of payment, to the Department of Education. The Department then prepared the payment vouchers and submitted the invoices, periodic payment requests, and vouchers to the Department of Property and Procurement for processing. The invoices and periodic payment requests were to be signed by authorized representatives of the Departments of Property and Procurement, Public Works, and Education certifying that the work was satisfactorily completed. However, in the 48 construction and professional services contract files that we reviewed, we found 65 payment (out of 154) totaling over \$21 million, that were made without all of the required approvals by the Governmental representatives. **"The Department of Education does not concur with this finding."** All requests for periodic payments were always approved by the respective Governmental Agencies; however, the final approval signatures were that of the Department of Property and Procurement. It is their responsibility to ensure that the other Governmental Approval Agencies received duly approved copies of all requests for payments for their files; this was not done and in consequence the files at the Department of Education and the Department of Public Works did not reflect all approval signatures. I will mandate that the Department of Property and Procurement ensure that all approval agencies be provided with copies of all payment requests **documentation in the future.**, inspection and progress reports were not always sufficiently detailed to support contractors' payment requests; **"The Department of Education does not concur with this finding."** Following the aftermath of Hurricane Marilyn, immediate reconstruction/repairs was performed and identified as **Phase I Reconstruction/Repairs; building;** work performed under the Phase I banner were performed without building permits. Under the Phase II banner

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permanent reconstruction/repairs were performed ; all such work was done in full compliance with the 1994 Uniform Building Code; the required drawings and specifications were prepared, submitted to the Department of Planning and Natural Resources and the necessary Building Permits received. When the auditors reviewed the files at the Department of Education and the Department of Property and Procurement their findings indicated the absence of these documents; this was because the Project Manager had not turned these files over to the Department of Education. At present however, said documentation is at the Department of Education who will be transmitting copies of said documentation to the Department of Property and Procurement for their files by February 13, 1998."

In addition, the invoices of the Hurricane Recovery Managers were not properly reviewed and approved. For example, during the period of December 20, 1995, to February 21, 1997, the Hurricane Recovery Managers submitted 10 invoices, totaling \$5.7 million, to the Governor's Authorized Representative (GAR). A letter dated April 19, 1996, from the GAR to the Hurricane Recovery Managers which was attached to the miscellaneous disbursement vouchers stated that the GAR was giving "conditional approval" of the payments but that he had not performed a detailed review and verification of the Hurricane Recovery Managers' work. The letter further stated that the GAR "disavowed," at that time, the representations in the Certification of Authorized Government Representative but that the Government reserved the right, upon detailed review and verification, to make appropriate adjustments against future invoices. However, there was no documentation in the files indicating whether detailed reviews or payment adjustments were subsequently made. We believe that the GAR's disclaimers indicate that the correct review process was not followed with regard to the Hurricane Recovery Managers' invoices and that there was little assurance that amounts paid were reasonable and allowable. "The Department of Education concurs with this finding." "The Audit Response Task Force" will investigate this outstanding matter in conjunction with the "GAR," to verify the 10 invoices totaling \$5.7 million, which the Hurricane Recovery Managers submitted to the "GAR" for approval during the period of December 20, 1995, to February 21, 1997. The extenuating circumstances surrounding the conditional approval of the invoices by the "GAR" will be researched and subject to detailed review and verification. The "GAR's" files will be researched to ascertain whether

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or not detailed reviews or payment adjustments were ever made; and if they were reasonable and allowable. The target completion date for this task will March 6, 1998.

Building Code and Permits

The 1994 Uniform Building Code (which is incorporated by the reference into Title 29, Chapter 5, of the Virgin Islands Code) requires that developers request a building permit before they begin construction by submitting a set of architectural plans to the Division of Permits of the Department of Planning and Natural Resources. Section 106.1 of the Building Code further requires that the building official issue a separate building permit for each structure erected, constructed, enlarged, altered, repaired, moved, converted, or demolished. Despite these requirements, which apply to Governmental facilities, the Government did not ensure that architectural plans were submitted for approval or that building permits were obtained for all repair work to the public schools. We found that plans and building permits were not available for 29 of 41 school construction projects. "The Department of Education does not concur with this finding."

Following the aftermath of Hurricane Marilyn, immediate reconstruction/repairs was performed and identified as Phase I Reconstruction/Repairs; building; work performed under the Phase I reconstruction/repairs were performed without building permits. Under the Phase II reconstruction/repairs permanent reconstruction/repairs were performed ; all such work was done in full compliance with the 1994 Uniform Building Code; the required drawings and specifications were prepared, submitted to the Department of Planning and Natural Resources and the necessary Building Permits received. When the auditors reviewed the files at the Department of Education and the Department of Property and Procurement their findings indicated the absence of these documents; this was because the Project Manager had not turned these files over to the Department of Education. At present however, said documentation is at the Department of Education which will be transmitting copies of said documentation to the Department of Property and Procurement for their files by February 13, 1998." Additionally, correspondence in the contract files indicated that some of the construction work was not in compliance with the building code requirements. "The

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Department of Education does not concur with this finding." All work performed under the Phase I reconstruction/repairs. which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II Phase I reconstruction/repairs. For example:

A status report prepared by the Hurricane Recovery Managers in May 1996 stated that repair work at the Joseph Sibilly, Charlotte Amalie, and Kirwan Terrace schools was not in compliance with the building codes and recommended that the Government issue stop work orders to the respective construction contractors. "The Department of Education does not concur with this

finding." All work performed under the Phase I reconstruction/repairs. which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II reconstruction/repairs. On May 21, 1996, the Department of Property and Procurement issued a stop work order to the contractor working at the Charlotte Amalie High School. However, in a June 11, 1996, memorandum, the then-Commissioner of Education authorized the contractor to continue all repair work at the High School "that does not relate to meeting provisions of the Uniform Building Code or other code requirements;.

"The Department of Education does not concur with this finding". All work performed under the Phase I reconstruction/repairs. which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II reconstruction/repairs.

We found no documentation in the files to indicate whether follow up actions were taken to have the contractor correct the building code violations that resulted in the stop work order or whether the Department of Education, the Hurricane Recovery Managers, or other representatives of the Government ensured that the contractor's subsequent work was in accordance with the Commissioner's instructions. We also did not find documentation in the files to indicate whether stop work orders were issued to the contractors at the Joseph Sibilly and Kirwan Terrace schools or whether the building code violations reported by the Hurricane Recovery Managers were corrected. "The Department of Education does not concur with this finding." All work performed under the Phase I reconstruction/repairs. which was not in

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compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II reconstruction/repairs.

In another instance, a new roof that was constructed at the Ulla Muller Elementary School after Hurricane Marilyn was blown off the school by Hurricane Bertha in July 1996. An architect/engineer alleged to the press that the new roof had not been constructed in accordance with the building code requirements. "The Department of Education does not concur with this finding." All work performed under the Phase I reconstruction/repairs, which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II reconstruction/repairs.

We believe that substandard construction work and the resultant potential for unsafe public schools existed because the Government and its representatives did not ensure that architectural plans were prepared and approved, building permits were issued, and building code requirements were met. "The Department of Education does not concur with this finding." All work performed under the Phase I reconstruction/repairs, which was not in compliance with the 1994 Uniform Building Code, was corrected by subsequent work performed in full compliance with the 1994 Uniform Building Code, under the Phase II reconstruction/repairs.

At the November 25, 1997, exit meeting on the preliminary draft report, the Commissioner of Education stated that repair work at almost all schools had subsequently been inspected by representatives of the Department of Education and the Department of Planning and Natural Resources and that, where necessary, additionally work was performed to mitigate the effects of repair work that originally was not in compliance with building code requirements. Specifically, he stated that corrective actions had been taken with regard to building code deficiencies at the Joseph Sibilly, Kirwan Terrace, and Ulla Muller schools but that some problems still existed relating to the quality and timeliness of the repair work at the Charlotte Amalie High School. The Commissioner also stated that he had taken a "hard line" with contractors by refusing to approve payments in cases where the repair work was not performed in accordance with contract and building code requirements. Further, the Commissioner stated that the Department had obtained and compiled that contract files originally held by the Hurricane Recovery Managers and the subsequent project manager.

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Recommendations

We recommend that the Governor of the Virgin Islands:

1. Direct the Department of Property and Procurement, in coordination with the Department of Public Works, to establish procedures for the contract oversight function which include assigning a Department of Public Works inspector to conduct regular inspections at each construction site and file appropriate inspection reports with the Department of Property and Procurement and to ensure that all appropriate Government representatives review and approve construction progress reports before periodic payments are made to contractors;

We concur with this recommendation. I have directed my Commissioners of the Departments of Property and Procurement and Public Works to coordinate an effort to establish appropriate procedures for contract oversight. I have been informed that many of these procedures have already been put in place.

2. Direct the Department of Property and Procurement, in coordination with the Department of Planning and Natural Resources, to establish procedures which ensure that architectural plans are submitted and approved and building permits are issued for all government construction projects;

The Commissioner of the Department of Planning and Natural Resources is working with the Commissioner of the Department of Property and Procurement to ensure that architectural plans for all government construction projects are submitted and approved by that Department. Newly established procedures require that the appropriate building permits be issued before construction of these projects begin.

3. Direct the Department of Public works, in conjunction with the Department of Planning and Natural Resources, to inspect all public schools which required construction work after Hurricane Marilyn to ensure that the work was performed in accordance with building code requirements. Any violations should be reported to the Department of Property and Procurement for subsequent correction by the contractors.

The Commissioner of Public Works and Planning and Natural Resources have been directed to conduct inspections of all public school construction work performed after hurricanes Marilyn to ensure that this work was performed in accordance with new building code requirements. Any discovered violations will be reported to the Department of Property and Procurement for subsequent correction by the contractors. This matter will be given top priority by my administration.

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4. Direct the Department of Education to obtain refunds from (or make offsets against amounts that may be owed to) the two contractors who were overpaid a total of \$12,363.00. **"The Department of Education does not concur with this finding."** (See Documentation of Oversight Activities \$12,363)

CLASSIFICATION OF MONETARY AMOUNTS

Finding

Questioned Costs

B. Contract Oversight

Documentation of Oversight Activities

\$12,363

"The Department of Education does not concur with this finding." The findings states that two (2) contractors were overpaid a total of \$12,363.90, which consisted of payments to the project manager, Caribbean Professional Consultants, and Custom Builders. With reference to Caribbean Professional Consultants, this finding has been forwarded to the Department of Public Works for a response. Attached, please find copy of memorandum dated 1/23/98 to the Commissioner of Public Works from the Commissioner of Education transmitting a copy of the draft report to be reviewed, investigated and responded to by that agency.

Custom Builders was awarded contract No. CC-35-DE-T-96 dated July 27, 1996 in the amount of \$109,355.83 to repair Alexander Henderson Elementary School on St. Croix. Subsequently, Change Order No. 1 dated November 19, 1996 and approved by the Commissioner of Education on 2/10/97 increasing this contract by the amount of \$19,900.74, thus, changing the total amount of this contract to \$129,256.57, charged to account code: 3132-25620-000-PPE-TO3106.

At the time of this audit review the following payments were being

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processed:

PERIODICAL ESTIMATE NO. 1

**Periodical Estimate in the amount of \$98,420.25 was paid from two (2)
different funding sources under:**

ACCOUNT CODE: 3132-25620-000-PPE-TO3106.

Periodical Estimate No. 1 \$ 98,420.25

Payment \$ 78,068.50

PERIODICAL ESTIMATE NO. 2.

Payment \$ 17,910.66

Sub Total \$ 95,979.16

PAYMENT WAS PAID AGAINST

ACCOUNT CODE: 9340-95250-000-02M-FD9340

Balance of Per. Estimate No. 1 \$ 20,351.75

Grant Total to Contractor \$ 116,330.91

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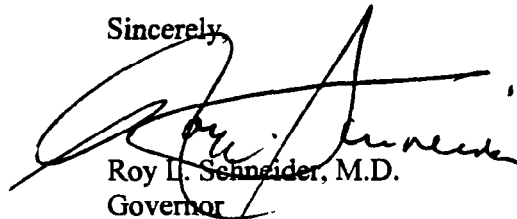
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We have outlined in detail a response to your Draft Audit Report. Should you have any further questions relating to our responses, please feel free to contact my office.

Sincerely,

A handwritten signature in black ink, appearing to read "Roy L. Schneider", is written over the typed name and title.

Roy L. Schneider, M.D.
Governor

Enclosure

cc: Mr. Arnold E. vanBeverhoudt, Jr., Director of Insular Area Audits
Honorable Liston A. Davis, Commissioner of Education
Mr. Elmo D. Roebuck, Special Asst. for Audit & Policy Evaluation

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1-A.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
B.1-B.3	Management concurs; additional information needed.	Provide target dates for completion of corrective actions. Upon completion, appropriate supporting documentation should be provided to our Caribbean Regional Office.
B.4	Unresolved.	Respond to the revised recommendation, and provide a response indicating concurrence or nonconcurrence. If concurrence is indicated, provide an action plan that includes target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide specific reasons for the nonconcurrence.

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